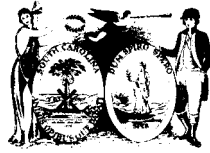


LANCASTER CONVALESCENT CENTER, INC.

**CONTRACT PERIOD
BEGINNING OCTOBER 1, 2001
AC# 3-LAN-J0**

**AGREED-UPON PROCEDURES REPORT
ON CONTRACT
FOR
PURCHASE OF NURSING CARE SERVICES
WITH
STATE OF SOUTH CAROLINA
DEPARTMENT OF HEALTH AND HUMAN SERVICES**

State of South Carolina



Office of the State Auditor

1401 MAIN STREET, SUITE 1200
COLUMBIA, S.C. 29201

THOMAS L. WAGNER, JR., CPA
STATE AUDITOR

(803) 253-4160
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INDEPENDENT ACCOUNTANT'S REPORT ON APPLYING AGREED-UPON PROCEDURES

September 4, 2002

Department of Health and Human Services
State of South Carolina
Columbia, South Carolina

RE: AC# 3-LAN-J0 – Lancaster Convalescent Center, Inc.

We have performed the procedures described below, which were agreed to by the South Carolina Department of Health and Human Services, solely to compute the rate change and related adjusted reimbursement rate to be used by the Department in determining the reimbursement settlement with Lancaster Convalescent Center, Inc., for the contract period beginning October 1, 2001 and for the twelve month cost report period ended September 30, 2000. The management of Lancaster Convalescent Center, Inc. is responsible for the Financial and Statistical Report for Nursing Homes and supporting accounting and statistical records. This agreed-upon procedures engagement was performed in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of the Department of Health and Human Services. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures and the associated findings are as follows:

1. We tested selected costs or areas based on our analytical procedures applied to the reimbursable Medicaid program costs as shown on the Financial and Statistical Report for Nursing Homes, as filed by Lancaster Convalescent Center, Inc., to determine if these costs were allowable as defined by the State Plan for Medicaid reimbursement purposes and supported by accounting and statistical records maintained by the provider. We found no material exceptions as a result of these procedures.
2. We considered the results of our testing and determined that there was no material effect on the provider's interim Medicaid reimbursement rate as listed below.

CONTRACT PERIOD

INTERIM MEDICAID RATE

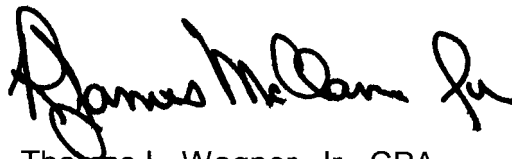
October 1, 2001 – September 30, 2002

\$108.61

Department of Health and Human Services
State of South Carolina
September 4, 2002

These agreed-upon procedures do not constitute an audit of financial statements or any part thereof, the objective of which would be the expression of an opinion on the financial statements or a part thereof. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of the South Carolina Department of Health and Human Services and is not intended to be and should not be used by anyone other than the specified party.

A handwritten signature in black ink, appearing to read "Thomas L. Wagner, Jr.", with a stylized flourish at the end.

Thomas L. Wagner, Jr., CPA
State Auditor

TLWjr/cwc

cc: Ms. Brenda L. Hyleman
Mr. Jeff Saxon
Mr. Joseph P. Hayes